

AR31

Canup



File

Canadian Hidrogas Resources Ltd.
1975 Annual Report

Canadian Hidrogas Resources Ltd.

Directors:

Evan W. G. Bodrug — Calgary
Robert E. McLennan — Calgary
Arthur F. Coady — Calgary
Robert C. Jeal — Calgary
Henry W. Klassen — Calgary
Benjamin J. McConnell — Vancouver
Noah Cohen — Calgary
Larry S. Heald — Calgary

Officers:

Evan W. G. Bodrug — President
Noah Cohen — Vice President
Robert C. Jeal — Controller
Larry S. Heald — Secretary

Head Office:

Suite 1000
610 - 8th Ave. S.W.
CALGARY, ALBERTA T2P 1G5

Transfer Agent:

National Trust Company Limited

Bank:

Bank of Montreal

Auditors:

Deloitte, Haskins & Sells — Calgary

Shares Listed:

Vancouver Stock Exchange
Calgary Stock Exchange
Toronto Stock Exchange

Share Symbol:

CHS

President's Report

1975 ANNUAL REPORT

To the Shareholders:

The fiscal year ending 31 August, 1975 was a year of substantial change in the structure of the Company.

During this year the marketing of propane and butane was discontinued by the Company (Note 1(b) to the Financial Statements) as it became increasingly evident that the profit potential in this operation was diminishing rapidly. This primarily resulted when all marketers of propane and butane in Canada, including Hidrogas Limited the subsidiary company which handled this part of our operation, were put on notice by the National Energy Board that the major portion of the propane must remain in Canada. Hidrogas Limited has essentially been a propane and butane exporter, selling over 90% of its products in the U.S. for the past nine years. Accordingly, this stipulation, as imposed, substantially changed their marketing pattern and therefore it was decided to discontinue this operation. Resulting from this decision, the Company wrote off the non-cash excess cost of the subsidiaries shares which exceeded the net assets of the subsidiaries at their dates of acquisition in the amount of \$360,000.

In spite of the substantial change during the year your Company still showed a positive cash flow from operations of \$153,000 or 5.7c per share after a provision of \$262,000 for allowance for doubtful accounts, most of which pertain to the propane and butane operation.

The Company continued to operate the Specialized Products part of the business. It has been decided that because of the Company taking on a full oil and gas production complex that these operations will also be phased out.

For this reason the auditors have included a condition relating to inventory on hand of these products and this condition will not be satisfied until such time that the inventories are liquidated.

This fiscal year was the first full year that the Company was engaged in the oil and gas business, having acquired its first substantial production late in the calendar year of 1973. It has been the opinion of management that a further price increase above that presently being received for crude oil will be forthcoming within the next two years. It therefore appears prudent that full development of the oil producing properties presently owned by the Company should await the timing of this price increase to take full advantage of maximizing the profit from oil production.

It will be noted from the balance sheet that acquisition of new properties during this fiscal year amount to approximately \$2.5 Million. A large portion of these properties consisted of gas production which will produce revenue in future periods. The Company, as operator, completed 15 gas wells in the Princess Area which began production in December, 1975. The Company also participates to the extent of 5% in the North Coleman gas unit which commenced production in November, 1975. These properties will contribute significantly to revenue in future periods.

It is the intention of the Company to aggressively continue in the oil and gas production operations and to take advantage of all opportunities which may present themselves in this line of endeavour.

Respectfully submitted on behalf
of the Board of Directors



Evan W. G. Bodrug, President

January 19, 1976
Calgary, Alberta

CANADIAN HIDROGAS RESOURCES LTD. and Subsidiaries

Consolidated Statement of Changes in Financial Position

For The Year Ended August 31, 1975 (with comparative figures for 1974)

	1975	1974
		(Restated Note 2(b))
FUNDS PROVIDED:		
Net (loss) income for the year	\$ (419,613)	\$ 800,072
Add items not requiring an outlay of funds:		
Depreciation	86,695	55,655
Depletion	74,965	13,088
Amortization	22,583	9,455
Deferred income taxes — net	26,222	786,812
Deposits on tank car rentals written off	—	142,394
Deferred expenses written off	—	49,337
Write-off of excess cost of shares acquired over net assets of subsidiaries at dates of acquisition due to discontinuance of the operations to which the excess relates (Note 1(b))	360,214	—
Minority interest in earnings of a subsidiary	2,909	—
Total funds provided from operations	153,975	1,856,813
Increase in long-term debt	4,778,000	2,400,000
Issue of capital stock	44,987	451,825
Total funds provided	4,976,962	4,708,638
FUNDS APPLIED:		
Acquisition of gas, oil and mineral interests	2,391,025	2,683,661
Acquisition of gas, oil and mineral interests by purchase of subsidiaries	—	879,754
Additions to transportation equipment and other assets — net	31,974	136,194
Financing costs — deferred	71,978	70,916
Paid or payable on long-term debt	1,859,966	1,067,342
Acquisition of shares of subsidiary company — (Note 1(d))	89,077	—
Mortgage receivable from a director	42,000	—
Excess cost of shares acquired over net assets of subsidiary less minority interest acquired	—	49,597
Total funds applied	4,486,020	4,887,464
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	490,942	(178,826)
(DEFICIENCY) WORKING CAPITAL AT BEGINNING OF THE YEAR	(147,315)	31,511
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	\$ 343,627	\$ (147,315)

The accompanying notes are an integral part of the consolidated financial statements.

CANADIAN HIDROGAS RESOURCES LTD. and Subsidiaries

Consolidated Statement of Retained Earnings

For The Year Ended August 31, 1975 (with comparative figures for 1974)

	1975	1974
		(Restated Note 2(b))
RETAINED EARNINGS AT BEGINNING OF THE YEAR:		
As previously reported	\$ 941,279	\$ 171,938
Retroactive adjustment resulting from capitalizing the previous years' financing costs — net of income taxes of \$30,730 (Note 2(b))	30,731	—
As restated	972,010	171,938
NET (LOSS) INCOME FOR THE YEAR	(419,613)	800,072
RETAINED EARNINGS AT END OF THE YEAR	\$ 552,397	\$ 972,010

The accompanying notes are an integral part of the consolidated financial statements.

CANADIAN HIDROGAS RESOURCES LTD. and Subsidiaries

Consolidated Statement of Loss

For The Year Ended August 31, 1975 (with comparative figures for 1974)

	1975	1974
SALES AND OPERATING REVENUE	<u>\$ 15,486,473</u>	<u>\$ 19,670,500</u>
EXPENSES:		(Restated Note 2(b))
Cost of sales and operating expenses	13,712,396	16,606,937
Selling, general and administrative expenses	993,600	1,010,043
Bad debts expense	261,837	68,709
Interest — long-term	302,192	160,933
— short-term	128,370	24,529
Depreciation, depletion and amortization	185,759	78,198
Total expenses	<u>15,584,154</u>	<u>17,949,349</u>
(LOSS) INCOME FROM OPERATIONS	<u>(97,681)</u>	<u>1,721,151</u>
OTHER CHARGES (INCOME):		
Deposits on tank car rentals written off — (Note 2(c))	—	142,394
Share of income of 20% owned company	—	(29,308)
Write-off of excess cost of shares acquired over net assets of subsidiaries at dates of acquisition due to discontinuance of the operations to which the excess relates (Note 1(b))	<u>360,214</u>	<u>—</u>
Net other charges	<u>360,214</u>	<u>113,086</u>
(LOSS) INCOME BEFORE INCOME TAXES	<u>(457,895)</u>	<u>1,608,065</u>
INCOME TAXES:		
Deferred	55,445	786,812
Current	(8,931)	21,181
Provincial rebates — deferred	(24,223)	—
— current	(63,482)	—
Net income taxes	<u>(41,191)</u>	<u>807,993</u>
(LOSS) INCOME BEFORE MINORITY INTEREST IN EARNINGS OF A SUBSIDIARY	<u>(416,704)</u>	<u>800,072</u>
MINORITY INTEREST IN EARNINGS OF A SUBSIDIARY	<u>2,909</u>	<u>—</u>
NET (LOSS) INCOME FOR THE YEAR	<u>\$ (419,613)</u>	<u>\$ 800,072</u>
(LOSS) EARNINGS PER SHARE (Note 8)	<u>(15.6¢)</u>	<u>31.8¢</u>

The accompanying notes are an integral part of the consolidated financial statements.

Auditors' Report

To the Shareholders of
Canadian Hidrogas Resources Ltd.:

We have examined the consolidated balance sheet of Canadian Hidrogas Resources Ltd. as at August 31, 1975 and the consolidated statements of loss, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, except that we have been unable to satisfy ourselves concerning the determination of the net realizable value of certain inventories, valued at an average cost of \$471,000.

In our opinion, except for the effect of any adjustments which might have been required had we been able to determine the net realizable value of the inventories referred to above, and subject to the successful defense of the lawsuit described in Note 7(c), these consolidated financial statements present fairly the financial position of the companies as at August 31, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for financing costs described in Note 2(b), have been applied on a basis consistent with that of the preceding year.

As required by Section 212 of the Companies Act, British Columbia, we also report that, in our opinion, the accounting treatment accorded minority interest is appropriate in the circumstances.

DELOITTE, HASKINS & SELLS
Auditors.

January 14, 1976.



CANADIAN HIDROGAS RESOURCES LTD. and Subsidiaries

Consolidated Balance Sheet

As at August 31, 1975 (with comparative figures for 1974)

Assets	1975	1974
		(Restated Note 2(b))
CURRENT ASSETS:		
Cash	\$ 335,434	\$ 299,753
Accounts receivable	1,881,576	2,982,586
Inventories — at the lower of average cost or net realizable value	1,206,384	1,833,230
Prepaid expenses and deposits	42,241	377,888
Marketable securities (market value \$25,437; 1974 — \$13,750)	29,562	29,562
Total current assets	<u>3,495,197</u>	<u>5,523,019</u>
MORTGAGE RECEIVABLE FROM A DIRECTOR — less portion included in accounts receivable	<u>42,000</u>	<u>—</u>
PROPERTY AND EQUIPMENT — at cost (Note 2(a)):		
Gas, oil and mineral interests	6,726,182	4,268,654
Transportation equipment and other assets	383,028	351,054
	<u>7,109,210</u>	<u>4,619,708</u>
Less accumulated depletion and depreciation	<u>274,491</u>	<u>112,831</u>
Net property and equipment	<u>6,834,719</u>	<u>4,506,877</u>
OTHER — at cost:		
Deferred expenses — net (Note 2(b))	124,658	75,263
Excess cost of shares acquired over net assets of subsidiaries at dates of acquisition (Note 1(b))	<u>—</u>	<u>360,214</u>
Total other assets	<u>124,658</u>	<u>435,477</u>
TOTAL	<u><u>\$10,496,574</u></u>	<u><u>\$10,465,373</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

Liabilities and Shareholders' Equity	1975	1974
		(Restated Note 2(b))
CURRENT LIABILITIES:		
Bank indebtedness	\$ —	\$ 1,260,000
Accounts payable and accrued liabilities	2,636,170	4,070,912
Current portion of long-term debt	515,400	318,241
Income taxes	—	21,181
Total current liabilities	<u>3,151,570</u>	<u>5,670,334</u>
LONG-TERM DEBT — less portion included in current liabilities (Note 3)	<u>4,741,733</u>	<u>1,823,699</u>
DEFERRED INCOME TAXES (Note 4)	<u>1,002,634</u>	<u>976,412</u>
MINORITY INTEREST	<u>38,181</u>	<u>57,846</u>
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized:		
5,000,000 common shares with a par value of \$1 each		
Issued and fully paid (Note 5):		
2,716,589 shares	890,434	857,147
Contributed surplus — arising on issue of common shares	119,625	107,925
Retained earnings	552,397	972,010
Total shareholders' equity	<u>1,562,456</u>	<u>1,937,082</u>
Approved by the Board:		
 Director		
 Director		
TOTAL	<u><u>\$10,496,574</u></u>	<u><u>\$10,465,373</u></u>

CANADIAN HIDROGAS RESOURCES LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

August 31, 1975

1. BASIS OF PRESENTATION:

- (a) These consolidated financial statements include the accounts of the parent company and those of its wholly-owned subsidiaries, Hidrogas Limited, Hidrogas Incorporated, Pet Chem Distributing Ltd., Hidrogas Inc. and its 73% owned subsidiary, Vanalta Resources Ltd.
- (b) During the year the Company entered an agreement to liquidate and terminate all further activity in the merchandising of liquified petroleum gas.

This agreement resulted in the following:

- (a) Sale of all propane and butane in storage at March 31, 1975 at a price equivalent to the company's laid in cost and storage;
- (b) assignment of all rights to underground storage facilities;
- (c) leasing or sub-leasing all tank cars presently owned or controlled by the company,
- (d) assignment of leases on tank cars presently under long-term lease where permitted by lessor and,
- (e) write off of excess cost of shares acquired over net assets of subsidiaries at dates of acquisition relating to this business.

The benefit to the company of the above noted sub-leases will be realized over their five year term.

- (c) The accounts of Hidrogas Incorporated, a U.S. corporation, have been converted to Canadian funds at par, which approximates both current and historical rates.
- (d) During the year the company acquired an additional 17.4% interest in the voting shares of its subsidiary Vanalta Resources Ltd. for cash of \$44,090 and 15,600 shares of the company valued at \$1.75 per share and 17,687 shares of the company valued at \$1.00 per share, for a total consideration of \$89,077. In addition, the company has the right to purchase an additional 75,000 voting shares of Vanalta at 30¢ per share which are held in escrow under the control of the Vancouver Stock Exchange.

2. SUMMARY OF ACCOUNTING PRACTICES AND RESTATEMENTS:

- (a) The Company follows the full cost method of accounting for its resource properties whereby costs of exploring for and developing oil and gas reserves are capitalized and these costs and well equipment costs are depleted and depreciated on a unit of production basis based on proven oil and gas reserves.

Depreciation of transportation equipment and other assets is computed under the declining-balance method at rates of 4% and 20% to 30% respectively.

- (b) During the year the Company retroactively adopted the policy of capitalizing financing costs and amortizing such costs over the period of the related debt. This change in policy has reduced the net loss for the year ended August 31, 1975 by \$24,697 and increased the net income for the year ended August 31, 1974 by \$30,731.

- (c) During the year ended August 31, 1974, the company adopted the practice of writing off all deposits on tank car rentals, whereas the previous practice was to write off all deposits over two years old. This change in practice reduced income for 1974 compared with 1975 by \$142,394 before income taxes.

3. LONG-TERM DEBT:

	<u>1975</u>	<u>1974</u>
Details of long-term debt are as follows:		
12% Note payable, maturing 1975, repayable at \$2,800. per month including interest, secured by certain equipment . .	\$ —	101,041
Mortgage payable, non-interest bearing, repayable in annual instalments of \$75,000, decreasing to a final instalment of \$54,000. July 1, 1979	249,000	324,000
Production loans, interest at 1½% above prime rate, to be repaid in equal monthly instalments including interest over 5 years, current portion approximately \$366,000.	3,014,333	716,899
9%, convertible debenture, due 1984, interest payable quarterly, convertible into common shares of the Company at the rate of 690 shares for each \$1,000. principal	1,000,000	1,000,000
12%, debenture, maturing 1980, repayable at \$5,600, per month plus interest	960,800	—
Agreement payable, non-interest bearing, maturing 1978, repayable in monthly instalments of \$1,000.	33,000	—
	<u>5,257,133</u>	<u>2,141,940</u>
Current portion of long-term debt	515,400	318,241
	<u>\$4,741,733</u>	<u>\$1,823,699</u>

The production loans are secured by a first charge against certain gas, oil and mineral interests. The mortgage payable is secured by a second charge against certain gas, oil and mineral interests. The 9% debenture is secured by a second charge against the remaining gas, oil and mineral interests and by a floating charge on all other assets of the Company. The 12% debenture is secured by a floating charge on all the assets of the Company.

4. INCOME TAXES:

For income tax purposes the Companies are entitled to claim capital cost allowance and drilling and exploration costs in excess of the related depreciation and depletion provisions charged against income. A subsidiary Company has a tax loss of approximately \$184,000 which may be utilized until 1979 to reduce future taxable incomes. The income tax reductions from the use of these losses will be recorded when the losses are utilized.

5. CAPITAL STOCK:

Details of issued capital are as follows:

	Number of Shares	At Par of \$1	Discount	Net	Contributed Surplus
Balance August 31, 1974	2,683,302	\$2,683,302	\$1,826,155	\$857,147	\$107,925
Issued on acquisition of shares of Vanalta Resources Ltd. (Note 1(d))	33,287	33,287	—	33,287	11,700
	<u>2,716,589</u>	<u>\$2,716,589</u>	<u>\$1,826,155</u>	<u>\$890,434</u>	<u>\$119,625</u>

Of 1,700,000 common shares issued during 1969 for the acquisition of Hidrogas Limited, 425,000 are held in escrow under the control of the Alberta Securities Commission and the Calgary Stock Exchange.

The Company has reserved 300,000 shares for issuance to officers and employees under a stock option plan. Options in respect of 70,000 shares have been granted at a price of \$1 per share and may be exercised to acquire up to 20% annually of the shares under option on a cumulative basis until May 1, 1979 on 35,000 shares and to August 16, 1980 on 35,000 shares.

The Company has granted non-transferable stock purchase warrants to two individuals for a total of 50,000 shares at \$2 per share, exercisable until February 1979.

The Company has entered into an Option Agreement with a debenture holder who has the option to purchase 300,000 shares of the Company at a price of \$1.60 per share, exercisable until December 31, 1978.

None of the above stock options or stock purchase warrants have been exercised to date.

6. REMUNERATION OF DIRECTORS AND OFFICERS:

Remuneration paid to six directors and senior officers of the company, four of whom serve in both capacities, amounted to \$111,727 in 1975.

7. CONTINGENT LIABILITIES AND COMMITMENTS:

(a) The Company has entered into a five year lease until 1977 for tank cars at an annual rental of \$147,000.

(b) The Company has entered into a lease agreement for office premises for two years with an option for an additional two years at an average annual rental of approximately \$28,000.

(c) A former supplier has commenced an action against the Company and the U.S. Federal Energy Administration in the Federal District Court, District of California, seeking damages of \$346,000 resulting from prices paid for certain liquefied petroleum products purchased by the Company under the regulations of the U.S. Federal Energy Administration. The Company and its solicitors are of the opinion that the action can be successfully defended and no provision for this amount has been made in these financial statements. In addition this supplier has invoiced the Company approximately \$550,000 for certain other liquefied petroleum products purchased and originally paid for under Federal Energy Administration regulations; the Company has not recognized this amount in these financial statements as it is of the opinion that the prices originally paid were in accordance with those laid down by the Federal Energy Administration and this additional amount is not a legal obligation of the Company.

8. EARNINGS PER SHARE:

Earnings per share have been calculated on the weighted average number of shares outstanding during the year.

There is no dilutive effect on earnings per share in 1975.



Canadian Hidrogas Resources Ltd.
1975 Annual Report